HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Sherbrooke CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2012

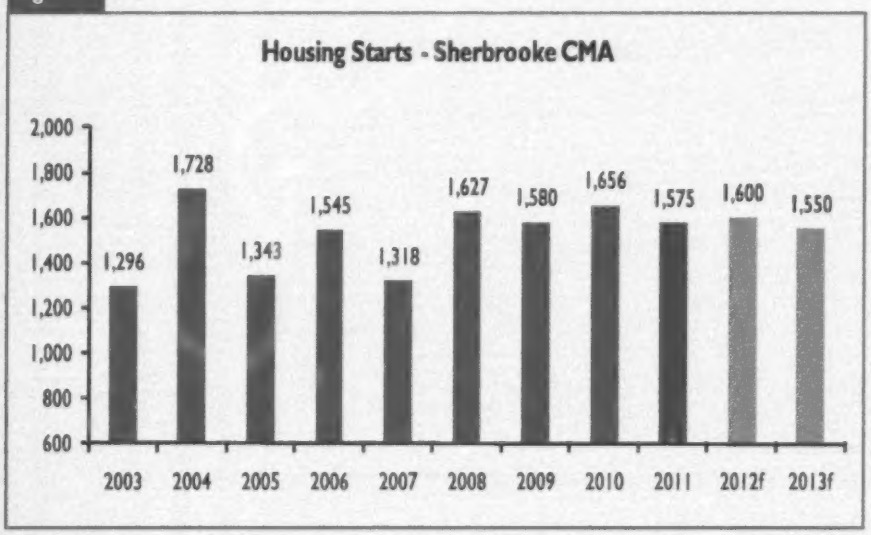
Housing market expected to increase slightly[1]

Activity on the Sherbrooke census metropolitan area (CMA) housing market decreased slightly in 2011, but should increase slightly in 2012.

Housing starts will end 2012 up 2 per cent and then drop again in 2013 (-3 per cent). In fact, they will benefit from employment growth in the area, but will be impacted by the likely rise in mortgage rates in 2013.

On the resale market, transactions should record a slight gain of 2 per cent this year (to 1,800 sales) and stabilize in 2013 (1,850 sales). This market will remain balanced, with prices climbing slightly.

Figure 1



Source: CMHC
f: CMHC forcasts

[1] The forecasts provided in this document are based on the information available on April 27, 2012

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Employment to increase in 2012 and 2013

In 2011, employment in the Sherbrooke CMA reached 98,700 jobs on average, up 6.6 per cent from 2010. This significant rise can be explained by the fact that, as was the case in most areas of Quebec, the Sherbrooke CMA regained all the jobs that were lost during the last recession, including in the service sector. In the first quarter of 2012, there were 99,200 jobs in the area, compared to 96,300 during the same period in 2011, for an increase of 3 per cent.

In 2012, the Sherbrooke area will benefit from various investments and projects that will help stimulate the local economy. We believe that employment should rise by 3 per cent to reach 102,000 jobs in 2012.

In 2013, employment in the Sherbrooke CMA will reach 105,500 jobs, up 2 per cent from 2012. The Canada Summer Games to be held in Sherbrooke in 2013 will certainly be a factor that will boost the local economy this year. The vigorous job market will therefore be a factor that will favour demand on the housing market in the CMA next year.

Net migration to remain stable

In 2011, net migration in the Sherbrooke CMA was positive and reached 1,741 people, a decrease of 3 per cent year over year.

We expect the migration context to stay the same over the next few years. In fact, some 50,000 immigrants could settle in the province of Quebec, and the demographic changes observed at the provincial level will no doubt have an impact on net migration in the Sherbrooke area, given that the CMA receives each year 2 to 3 per cent of these immigrants. And, as was the case in 2011, the Sherbrooke area will continue to welcome many people from other areas of Quebec.

It should be noted that, in 2011, the Sherbrooke CMA posted positive intraprovincial net migration for people between the ages of 30 and 39, a first in nearly 10 years. Therefore, the area would appear to be attracting a demographic segment composed of more young families, which could stimulate the new home market, particularly in the more affordable segments, such as semi-detached and row homes.

For these reasons, net migration in the Sherbrooke CMA will reach close to 1,750 people in 2012. In the short term, these newcomers will no doubt stimulate demand for housing (especially rental dwellings).

Mortgage rates

CMHC uses publicly available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

MLS® sales to increase in 2012

While MLS® transactions recorded a 10-per-cent drop at the beginning of 2011, increases in sales were substantial in the second and fourth quarters, ranging from 11 to 12 per cent. In addition, home resales climbed by 11 per cent in early 2012.

Following a small rise in existing home sales in 2011, the economic fundamentals suggest that resale market activity will again increase slightly in 2012. The job market and financing conditions will remain favourable until the end of the year. It should also be recalled that the growing supply of existing homes from year to year increases, by the same token, the potential pool of MLS® sales in the Sherbrooke area.

In this context, we expect MLS® sales to rise slightly this year, to close to 1,800 units (+2 per cent).

It should be noted that condominium resales should do particularly well in 2012, as was the case in 2011. These generally more affordable units can attract first-time buyers and aging clients seeking a home that requires less maintenance.

As for market conditions and their impact on prices, on the supply side, active MLS® listings have been growing steadily in the Sherbrooke area since the second quarter of 2011. Given that demand generally followed the same trend during this period, active listings should stabilize in 2012.

Figure 2

Source: QFREB by Centris®
f: CMHC forcasts

The combination of these factors (increase in supply and demand) will result in a continued balanced market in 2012. These balanced market conditions will translate into a smaller increase in the average price this year (2 per cent in 2012, versus 6 per cent in 2011), such that the average MLS® price of homes will reach $220,000 in 2012. In 2013, rising mortgage rates will limit the impact of the labour market on the resale market. The average price will then attain $228,000, for an increase of 3.6 per cent in relation to 2012.

Housing starts to increase slightly in 2012

In 2011, foundations were laid for 1,575 housing units in the Sherbrooke CMA. Of these, 62 per cent were intended for the freehold and condominium housing markets.

That being said, we estimate that 1,600 dwellings will be started in 2012, up 2 per cent from 2011. This gain will conceal somewhat opposing realities, however. In fact, single-detached home starts will stabilize at 550 units (-1 per cent), but there will be a small increase in semi-detached and row houses, which still remain very popular options in the area given their affordability.

Rental apartment starts should also stabilize in 2012. Demand for rental apartments has been decreasing for the last few years, following the strong movement to homeownership recorded in recent years. However, positive net migration and consumer preferences for newer, more modern apartments and social housing projects are factors that will increase demand, which should stabilize the number of rental housing starts.

In the condominium segment, housing starts will increase slightly this year, with about 100 units getting under way in 2012, compared to 91 in 2011. It should be mentioned however that, with only 6 per cent of starts last year, condominiums remain a relatively small market in the Sherbrooke area. Among all homeownership dwelling types, the rise in semi-detached and row housing starts will be primarily responsible for the increase in activity in the Sherbrooke CMA this year.

Next year, 1,550 units will be started in the Sherbrooke CMA (-3 per cent). Rising mortgage rates will restrict the movement to homeownership and therefore limit home construction. Employment growth in the capital of the Eastern Townships will nevertheless support the new home market in 2013 and, at the same time, limit the drop in housing starts.

Rental market conditions to stabilize

According to the results of the CMHC Rental Market Survey conducted in October 2011, the rental apartment vacancy rate stabilized in the Sherbrooke CMA. After climbing by 0.7 of a percentage point in 2010, to 4.6 per cent, this rate rose to 4.7 per cent in 2011. This recent stability followed a context where the vacancy rate had eased more significantly for the previous four years, mainly as a result of a strong shift to homeownership. It should be mentioned that the increase in the size of the rental housing stock also contributed to the rise in the vacancy rate, but to a lesser extent.

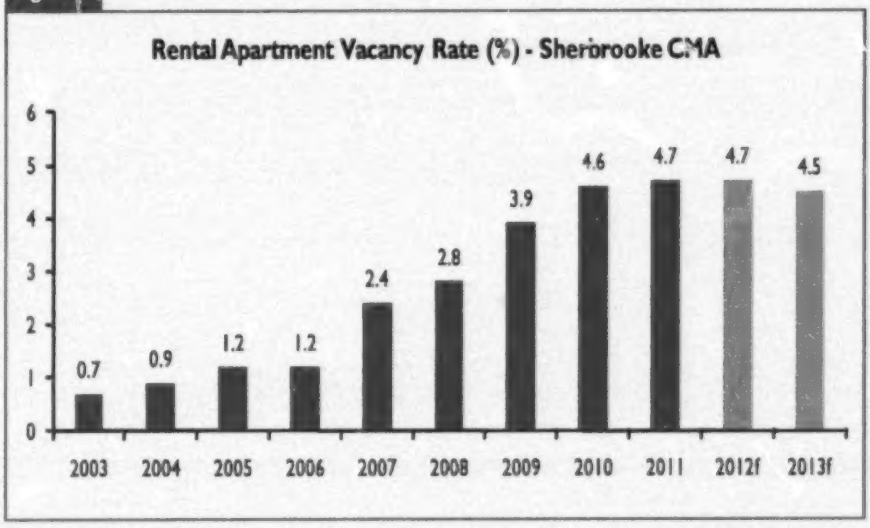
Another significant factor is the number of migrants who arrived in the Sherbrooke CMA this year or will be arriving in the area in 2013, as most of them, when they arrive, will be looking for an apartment. This will help maintain and even boost demand for rental units. This year, we expect 1,750 immigrants to settle in the Sherbrooke CMA.

In spite of this steady demand, it should not be forgotten that more units will be added to the rental housing stock, increasing supply on this market.

Under these conditions, the vacancy rate will remain stable in 2012, at 4.7 per cent. The expected slowdown in rental apartment starts in 2013 and the increase in interest rates will curb the movement to homeownership and cause the vacancy rate to drop slightly, to 4.5 per cent, in 2013.

The average monthly rent for two-bedroom apartments, for its part, will reach $590 this year and $605 in 2013.

Figure 3



Source: CMHC
f: CMHC forcasts

Forecast Summary
Sherbrooke CMA (1)
Spring 2012

	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	1,801	1,729	1,761	1,800	2.2	1,850	2.8
MLS® Active Listings	1,321	1,333	1,388	1,400	0.8	1,415	1.1
MLS® Average Price ($)	193,247	204,421	215,579	220,000	2.1	228,000	3.6
New Home Market							
Starts:							
Single-Detached	668	570	557	550	-1.3	525	-4.5
Multiples	912	1,086	1,018	1,050	3.1	1,025	-2.4
Starts - Total	1,580	1,656	1,575	1,600	1.6	1,550	-3.1
Average Price ($) - excluding Magog:							
Single-Detached	219,732	197,101	184,319	210,000	13.9	220,000	4.8
New Housing Price Index (% chg) (Que.)	3.1	3.1	2.6	n.a.	-	n.a.	-
Rental Market - excluding Magog in 2006							
October Vacancy Rate (%)	3.9	4.6	4.7	4.7	-	4.5	-
Two-bedroom Average Rent (October) ($)	553	566	577	590	-	605	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	96,800	92,600	99,000	102,000	3.0	105,000	2.9
Unemployment rate (%)	6.6	7.6	6.9	6.7	-	6.6	-
Net Migration	1,790	1,800	1,741	1,750	0.5	1,800	2.9

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

(1) According to Statistics Canada's new definition, the Sherbrooke CMA now includes the municipality of Magog. Statistics have been adjusted except where indicated.

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®, Statistics Canada. CMHC Forecast (2011-2012).

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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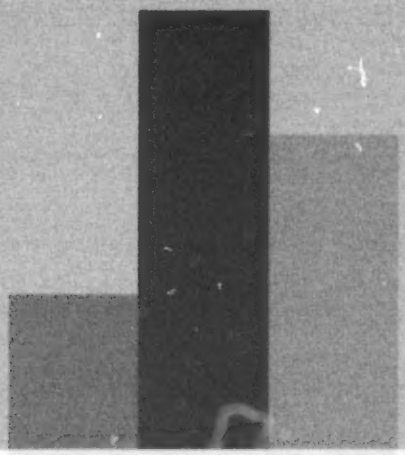

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